

Alternative Estimates of Corporate Depreciation and Profits, 1965-70

CORPORATE capital consumption allowances in the national income and product accounts are based primarily on the depreciation claimed by corporations under Federal tax laws and regulations. Because of the many changes in these laws and regulations since 1940, it has become increasingly difficult to analyze not only the depreciation data

Table 4.—Profits Before Taxes¹ and Profits Before Taxes as Percent of Gross Product of Nonfinancial Corporations: National Income Accounts Definition Compared With Profits Based on Alternative Methods of Depreciation, 1965-70

		(Billions of dollars)					
Line		1965	1966	1967	1968	1969	1970
1	Corporate profits, national income accounts (NIA).....	63.4	68.9	64.5	68.4	61.5	52.6
2	Percent of gross corporate product.....	17.0	18.8	18.1	14.7	12.4	10.3
3	Corporate profits plus depreciation, national income accounts (NIA).....	30.1	102.4	106.2	112.6	107.8	106.4
4	Percent of gross corporate product.....	20.2	25.0	24.6	24.2	22.1	20.6
Alternative methods of depreciation:							
Historical cost valuation:							
6	Straight line depreciation, 7 service lives.....	70.9	75.6	72.3	77.1	71.1	65.3
8	Percent of gross corporate product.....	18.9	18.7	18.9	16.6	14.9	12.4
7	Straight line depreciation, 50F service lives.....	68.8	74.2	70.1	74.4	68.1	60.1
8	Percent of gross corporate product.....	18.4	18.1	16.4	16.0	12.7	11.7
13	Double-declining balance depreciation, 50F service lives.....	66.2	70.1	66.6	69.3	62.8	54.2
14	Percent of gross corporate product.....	17.4	17.1	16.3	14.9	12.6	10.6
Current price (1) valuation:							
17	Straight line depreciation, 7 service lives.....	68.0	71.2	66.7	70.4	62.4	52.9
18	Percent of gross corporate product.....	17.6	17.4	16.6	15.1	12.6	10.3
19	Straight line depreciation, 50F service lives.....	64.7	69.7	64.8	68.2	60.1	50.1
20	Percent of gross corporate product.....	17.3	17.0	16.2	14.7	12.1	9.8
23	Double-declining balance depreciation, 50F service lives.....	62.0	66.3	60.9	64.0	56.5	46.2
24	Percent of gross corporate product.....	16.5	16.2	14.8	13.7	11.1	8.9
Current price (2) valuation:							
27	Straight line depreciation, 50F service lives.....	65.3	70.2	65.4	68.9	60.6	50.7
28	Percent of gross corporate product.....	17.4	17.2	16.3	14.8	12.2	9.9
29	Double-declining balance depreciation, 50F service lives.....	62.5	66.9	61.4	64.5	56.8	46.7
30	Percent of gross corporate product.....	16.7	16.3	14.4	13.8	11.2	8.9
31	Gross corporate product.....	374.2	404.3	426.5	468.7	497.6	511.5

1. Includes IVA. Excludes profits originating in the rest of the world and profits on residential properties owned by nonfinancial corporations.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 5.—Profits After Taxes¹ and Profits After Taxes as Percent of Gross Product of Nonfinancial Corporations: National Income Accounts Definition Compared With Profits Based on Alternative Methods of Depreciation, 1965-70

		(Billions of dollars)					
Line		1965	1966	1967	1968	1969	1970
1	Corporate profits, national income accounts (NIA).....	36.2	38.9	34.4	34.5	28.5	25.9
2	Percent of gross corporate product.....	8.7	9.5	8.6	7.4	5.7	5.1
3	Corporate profits plus depreciation, national income accounts (NIA).....	78.7	76.5	77.1	78.3	76.7	76.7
4	Percent of gross corporate product.....	15.9	18.7	18.1	16.0	15.4	15.4
Alternative methods of depreciation:							
Historical cost valuation:							
5	Straight line depreciation, 7 service lives.....	43.4	45.7	44.2	46.4	38.1	36.6
6	Percent of gross corporate product.....	11.6	11.4	10.3	9.8	7.6	7.2
7	Straight line depreciation, 50F service lives.....	41.4	44.4	42.0	40.7	35.1	33.5
8	Percent of gross corporate product.....	11.1	10.8	9.8	8.7	7.1	6.6
13	Double-declining balance depreciation, 50F service lives.....	37.8	40.2	37.4	38.6	32.6	27.6
14	Percent of gross corporate product.....	10.1	9.8	8.8	7.9	6.9	5.4
Current price (1) valuation:							
17	Straight line depreciation, 7 service lives.....	38.6	41.6	38.0	39.7	32.6	28.2
18	Percent of gross corporate product.....	10.3	10.1	9.0	7.9	6.9	5.1
19	Straight line depreciation, 50F service lives.....	37.2	39.8	36.7	34.5	27.1	23.4
20	Percent of gross corporate product.....	9.9	9.7	8.6	7.4	6.4	4.6
23	Double-declining balance depreciation, 50F service lives.....	34.8	36.6	32.8	30.8	22.4	18.6
24	Percent of gross corporate product.....	9.2	8.9	7.7	6.6	4.5	3.6
Current price (2) valuation:							
27	Straight line depreciation, 50F service lives.....	37.0	40.6	37.8	36.2	27.6	24.9
28	Percent of gross corporate product.....	10.1	9.9	8.7	7.5	6.6	4.7
29	Double-declining balance depreciation, 50F service lives.....	35.1	37.0	33.2	30.8	22.8	19.0
30	Percent of gross corporate product.....	9.4	9.0	7.8	6.6	4.6	3.7
31	Gross corporate product.....	374.2	404.3	426.5	468.7	497.6	511.5

1. Includes IVA. Excludes profits originating in the rest of the world and profits on residential properties owned by nonfinancial corporations.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

but also the profits figures shown in the accounts. For some types of analyses, it is desirable to use instead figures based on depreciation methods and service lives that are consistent over time.

The valuation of depreciation poses another problem whose solution requires depreciation estimates that differ from those published. Depreciation in the national accounts is valued in terms of the historical cost of assets and thus reflects a mixture of the prices of the various years in which the investments were made. For this reason, neither corporate depreciation nor corporate

profits are comparable over time, nor are they comparable with other components of the accounts for any given year.

Alternative measures of corporate depreciation for the years 1929-66 based on various assumptions as to service lives, depreciation patterns, and bases of valuation were given in an article by Allan H. Young, "Alternative Estimates of Corporate Depreciation and Profits: Parts I and II," SURVEY OF CURRENT BUSINESS, April and May 1968. Those alternative measures were substituted for capital consumption allowances in the national accounts to

derive alternative estimates of corporate profits. The alternatives were compared with published profits, and, for each, the ratios of profits to gross corporate product and to income originating in corporations were compared for the period 1929-66 (tables 4, 5, and 6 of the May 1968 SURVEY article). The tables presented here extend these comparisons through 1970 for several of the alternative measures of corporate depreciation based on revised and updated data. The numbering of the tables and lines is keyed to the May 1968 SURVEY article.

Table 6.—Profits Before and After Taxes¹ and Profits Before and After Taxes as Percent of Income Originating in Nonfinancial Corporation: National Income Accounts Definition Compared With Profits and Income Originating Based on Alternative Methods of Depreciation, 1965-70

(Billions of dollars)

Line		1965	1966	1967	1968	1969	1970
1	Corporate profits before taxes, national income accounts (NIA)	63.8	65.9	64.5	68.4	61.5	52.6
2	Percent of corporate income originating	20.9	20.5	18.6	18.1	15.3	12.9
3	Corporate profits after taxes, national income accounts (NIA)	36.2	39.0	38.4	35.6	28.5	25.1
4	Percent of corporate income originating	11.0	11.6	10.5	9.1	7.1	6.3
5	Corporate income originating	304.7	326.1	347.7	378.6	403.9	406.6
Alternative methods of depreciation:							
Historical cost valuation:							
Straight line depreciation, 7 service lives							
6	Profits before taxes	70.0	76.6	72.3	77.1	71.1	63.3
7	Percent of income originating	22.7	23.3	20.8	20.0	17.2	15.1
8	Profits after taxes	43.4	46.7	44.2	42.4	38.1	30.0
9	Percent of income originating	13.0	13.6	12.4	11.2	9.2	8.7
10	Income originating	312.0	343.6	365.5	387.3	412.6	420.1
Straight line depreciation, 35F service lives							
11	Profits before taxes	68.8	74.2	70.1	74.4	68.1	60.1
12	Percent of income originating	22.2	21.8	19.8	19.3	16.5	14.4
13	Profits after taxes	41.5	44.4	42.0	40.7	35.1	32.3
14	Percent of income originating	13.3	13.0	11.0	10.8	8.0	8.0
15	Income originating	309.8	341.2	363.3	384.6	400.0	410.9
Double-declining balance depreciation, 35F service lives							
16	Profits before taxes	66.2	70.1	65.5	69.3	62.5	54.2
17	Percent of income originating	21.3	20.8	18.8	18.3	15.6	13.2
18	Profits after taxes	37.8	40.8	37.4	35.0	29.6	27.6
19	Percent of income originating	12.3	11.0	10.7	9.4	7.3	6.7
20	Income originating	300.5	337.1	348.7	379.6	404.0	411.0
Current price (1) valuation:							
Straight line depreciation, 7 service lives							
21	Profits before taxes	60.0	71.3	68.7	70.4	62.6	62.8
22	Percent of income originating	21.6	21.1	19.1	18.5	15.5	15.8
23	Profits after taxes	38.0	41.0	38.6	36.7	29.0	29.3
24	Percent of income originating	12.6	12.3	11.0	9.6	7.2	6.4
25	Income originating	397.2	338.8	349.9	390.0	404.0	400.7
Straight line depreciation, 35F service lives							
26	Profits before taxes	64.7	69.7	65.8	68.2	60.1	58.1
27	Percent of income originating	21.1	20.7	18.4	18.0	15.0	12.2
28	Profits after taxes	37.2	39.8	36.7	34.5	27.1	24.4
29	Percent of income originating	12.2	11.8	10.5	9.1	6.7	5.7
30	Income originating	305.8	330.7	348.0	375.5	401.0	400.0
Double-declining balance depreciation, 35F service lives							
31	Profits before taxes	62.0	66.3	60.0	64.0	55.5	45.3
32	Percent of income originating	20.4	19.9	17.7	17.1	14.0	11.3
33	Profits after taxes	34.5	36.5	32.5	30.3	22.4	18.6
34	Percent of income originating	11.4	10.9	9.3	8.1	5.7	4.5
35	Income originating	352.1	323.3	344.1	374.2	390.0	402.2
Current price (2) valuation:							
Straight line depreciation, 35F service lives							
36	Profits before taxes	65.3	78.3	65.4	68.0	60.6	50.7
37	Percent of income originating	21.2	23.9	18.8	18.2	15.1	12.4
38	Profits after taxes	37.9	48.5	37.3	35.2	27.6	24.0
39	Percent of income originating	12.4	12.6	10.7	9.3	6.0	5.9
40	Income originating	390.4	337.2	348.0	370.1	402.1	397.5
Double-declining balance depreciation, 35F service lives							
41	Profits before taxes	62.5	65.0	61.4	64.5	55.8	44.7
42	Percent of income originating	20.0	19.0	17.8	17.2	14.1	11.4
43	Profits after taxes	35.1	37.0	33.8	30.8	22.8	19.6
44	Percent of income originating	11.0	11.1	9.7	8.2	5.7	4.7
45	Income originating	303.6	333.2	344.6	374.7	397.3	402.5

1. Includes IVA. Excludes profits originating in the rest of the world and profits on residential properties owned by nonfinancial corporations.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis.